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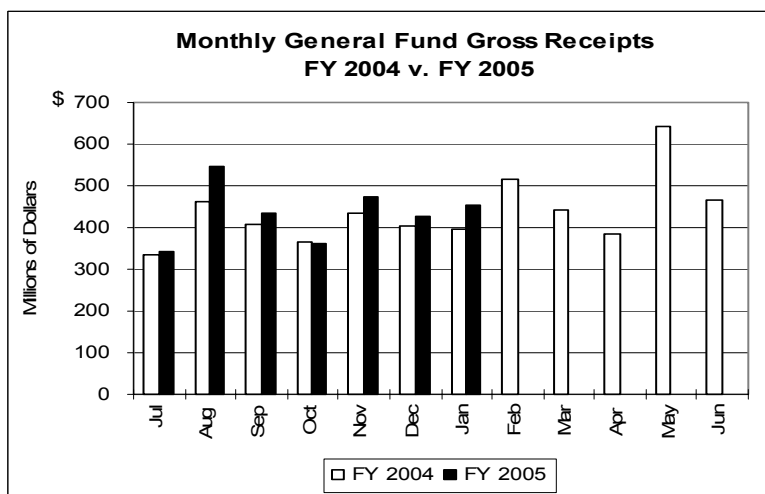
ADMINISTRATIVE SERVICES  
 TIMOTHY C. FALLER

## MEMORANDUM

TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives  
 FROM: Dennis C. Prouty  
 DATE: February 1, 2005

### Monthly General Fund Receipts through January 31, 2005

The attached spreadsheet presents year-to-date FY 2005 General Fund receipts, with comparable figures for actual FY 2004. The figures can be compared to the FY 2005 estimate of \$5.400 billion set by the Revenue Estimating Conference (REC) on December 14, 2004. The FY 2005 estimate is an increase of \$141.5 million (2.7%) compared to actual FY 2004 gross cash receipts (excluding transfers and accrued revenue changes). The next Revenue Estimating Conference has not been scheduled.



### FY 2005 Compared to FY 2004

Fiscal year 2005 total cash gross revenues (excluding transfers) increased \$230.3 million (8.2%) compared to FY 2004 (through January). Major revenue sources contributing to the change include:

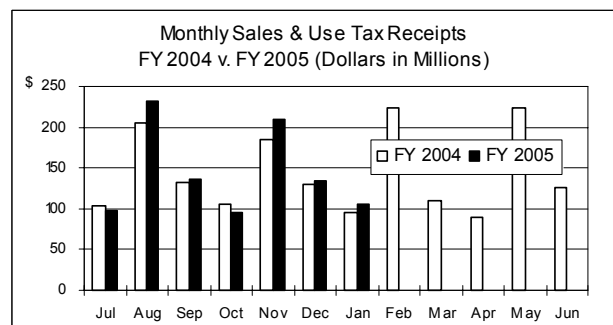
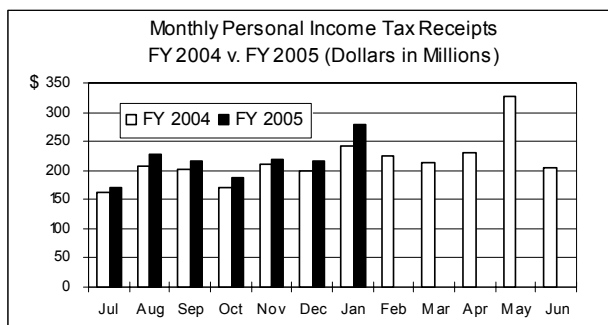
- Personal income tax (positive \$123.5 million, 8.9%)
- Sales/use tax (positive \$51.9 million, 5.4%)
- Corporate tax payments (positive \$29.5 million, 27.0%)
- Other taxes (positive \$16.0 million, 11.5%)
- Other receipts (positive \$9.4 million, 4.5%)

**Personal income tax** revenues received in January totaled \$279.8 million, an increase of \$38.7 million (16.1%) compared to January 2004. For the month, withholding tax payments increased 13.7% and estimate payments increased 22.4%. Payments with returns were up, but are not a significant revenue source in January.

For January, receipts from withholding were boosted by an extra Friday payday in the month's receipts (three-Friday effect). This effect will reverse itself in February. Adjusting for the payday issue, January withholding growth was still strong.

Income tax estimate payments increased substantially in December and January, posting a \$24.1 million gain over the two months. As this is the final estimate payment for most taxpayer's tax year 2004, it could mean the income Iowans receive from sources not subject to withholding increased for the year. If this is the case, the State should see strong net revenue gains through the return/refund season (March through May).

The FY 2005 REC income tax estimate of \$2.717 billion represents a projected increase of 4.8% compared to actual FY 2004. Year-to-date, income tax receipts have increased 8.9%. Tax law changes related to bonus depreciation and Section 179 expensing will impact the remainder of the year and should reduce the percentage growth going forward. In addition, planned revisions to income tax withholding tables will negatively impact the last three months of FY 2005. The following chart compares FY 2005 monthly personal income tax receipts from the three personal income tax sub-categories with FY 2004.



**Sales/use tax** receipts received in January totaled \$105.8 million, an increase of \$9.8 million (10.2%) compared to January 2004.

The REC estimate for FY 2005 sales/use tax receipts is \$1.767 billion, an increase of 2.0% compared to actual FY 2004. Year-to-date, sales/use tax receipts have increased 5.4%. The preceding chart compares FY 2005 monthly sales/use tax receipts with FY 2004.

**Corporate tax** receipts received in January totaled \$20.4 million, a \$1.3 million increase (6.8%) compared to January 2004.

The REC estimate for FY 2005 corporate tax receipts is \$230.6 million, which represents a decrease of 1.8% compared to actual FY 2004. Year-to-date corporate tax receipts have increased 27.0%. Tax law changes related to bonus depreciation and Section 179 expensing will impact the remainder of the year and should reduce the percentage growth going forward.

**Other tax** receipts received in January were \$14.3 million, a \$3.8 million (- 21.0%) decrease compared to January 2004. Inheritance, franchise (banking), and miscellaneous tax receipts were down for the month.

The REC estimate for FY 2005 receipts from other taxes is \$369.2 million, which represents an increase of 0.7% compared to actual FY 2004. Year-to-date, other tax receipts have increased 11.5%. The large year-to-date increase is due to insurance premium tax rate and due date changes taking place in FY 2005 and will result in extra revenue in the first eight months of the fiscal year and reduced revenue during the final four months. This will cause the revenue category to appear above projections during those first eight months.

**Other receipts** (non-tax receipts) received in January totaled \$34.5 million, an increase of \$11.7 million (51.3%) compared to January 2004. Other receipts were boosted in January by a \$10.0 million transfer from the Unclaimed Property Fund. Fee revenue was up for the month while judicial revenue decreased.

The REC estimate for FY 2005 other receipt revenue is \$316.2 million, which represents a decrease of 4.8% compared to actual FY 2004. The projected decrease relates to transfers from the AEA and the Unclaimed Property Fund. Year-to-date, other receipts have increased 4.5%.

### Status of the Economy

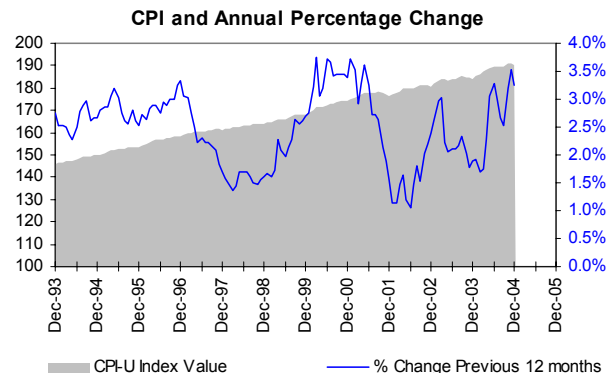
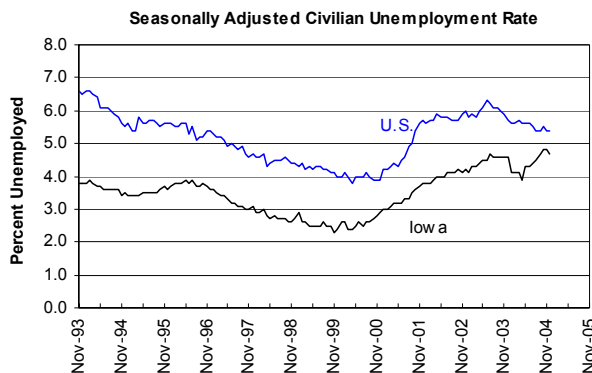
The December seasonally adjusted Iowa civilian unemployment rate was 4.7%, a decrease of 0.1% compared to the revised November level and 0.1% higher than one year ago. Iowa's total seasonally adjusted December 2004 employment registered at 1,554,000, up 26,800 (1.8%) from last year's December level.

The number of unemployed persons in Iowa was reported at 76,700 in December 2004, an increase of 3,200 compared to December 2003.

The U.S. unemployment rate for December 2004 was 5.4%, 0.7 percentage points above the Iowa rate. For the last four months, the Iowa and national rates have been closer than any time since September 1987. One year ago, the U.S. unemployment rate was 5.7%.

Consumer prices decreased 0.4% during the month of December (not seasonally adjusted). The Consumer Price Index (CPI-U) through December 2004 was 190.3 (1983/84=100), 3.3% higher than one year ago. The annual rate of inflation has been generally increasing since March 2004.

The following charts illustrate Consumer Price Index and U.S./Iowa unemployment comparisons through November.



Information related to State General Fund receipts is available on the Fiscal Services Division's web site at: <http://staffweb.legis.state.ia.us/lfb/revdebt.htm>.

GENERAL FUND RECEIPTS - FY 2004 vs. FY 2005 July 1 through January 31, in millions of dollars Dollars may not add due to rounding. Percentages Calculated on Rounded Numbers					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars FY 04 Actual Compared to FY 05 REC Estimate		
	FY 2004	FY 2005	Year to Date % CHANGE	January % CHANGE	Actual FY 2004	Estimate FY 2005	Projected % CHANGE
Personal Income Tax	\$ 1,392.8	\$ 1,516.3	8.9%	16.1%	\$ 2,592.3	\$ 2,716.7	4.8%
Sales/Use Tax	959.8	1,011.7	5.4%	10.2%	1,732.4	1,766.8	2.0%
Corporate Income Tax	109.4	138.9	27.0%	6.8%	234.8	230.6	-1.8%
Inheritance Tax	48.2	47.7	-1.0%	-29.3%	80.1	77.7	-3.0%
Insurance Premium Tax	5.4	22.0	307.4%	0.0%	138.2	145.0	4.9%
Cigarette Tax	50.1	50.6	1.0%	4.5%	87.1	88.0	1.0%
Tobacco Tax	4.7	5.1	8.5%	16.7%	8.0	8.2	2.5%
Beer Tax	8.6	8.6	0.0%	-7.7%	14.0	14.0	0.0%
Franchise Tax	20.8	20.1	-3.4%	-13.8%	38.0	35.3	-7.1%
Miscellaneous Tax	1.2	0.9	-25.0%	-200.0%	1.1	1.0	-9.1%
 Total Special Taxes	 \$ 2,601.1	 \$ 2,822.0	 8.5%	 12.3%	 \$ 4,926.0	 \$ 5,083.3	 3.2%
 Institutional Payments	 7.0	 7.2	 2.9%	 0.0%	 13.7	 13.0	 -5.1%
Liquor Profits	30.3	30.3	0.0%	0.0%	58.0	60.1	3.6%
Interest	4.3	6.6	53.5%	100.0%	7.6	7.0	-7.9%
Fees	45.7	40.1	-12.3%	19.2%	79.9	65.1	-18.5%
Judicial Revenue	27.9	28.1	0.7%	-25.8%	57.5	57.3	-0.3%
Miscellaneous Receipts	32.2	44.5	38.2%	404.2%	55.2	53.7	-2.7%
Racing and Gaming Receipts	60.0	60.0	0.0%	0.0%	60.0	60.0	0.0%
 TOTAL GROSS RECEIPTS	 \$ 2,808.5	 \$ 3,038.8	 8.2%	 14.5%	 \$ 5,257.9	 \$ 5,399.5	 2.7%